OLR Bill Analysis

sHB 6525 (as amended by House "A")*

AN ACT CONCERNING THE CONTINUANCE OF THE MAJORITY LEADERS' JOB GROWTH ROUNDTABLE.

SUMMARY:

This bill establishes and modifies several economic development programs, makes structural and procedural changes to two quasi-public state development agencies, and requires two studies. It:

1. extends student loan reimbursements to residents receiving more types of science- and technology-related degrees and eliminates reimbursements for those receiving training certificates in specified fields (§ 1);

2. allows business taxpayers to transfer insurance reinvestment tax credits to their affiliates (§ 2);

3. requires the transportation and administrative services commissioners to study and report on the costs and benefits of converting a portion of the state's auto fleet to alternative energy sources (§3);

4. establishes a program under which small manufacturers can defer taxes on the money they save for training workers and acquiring facilities and equipment (§§ 4-7);

5. makes the Department of Economic and Community Development (DECD) commissioner the chairperson of the Connecticut Housing Finance Authority's (CHFA) board (§ 8);

6. establishes a task force to promote innovative business leaders (§ 9);

7. allows the Office of Brownfield Remediation and Development

(OBRD) to enter into cooperative funding agreements with other entities (§ 10);

8. revamps the Innovation Network for Economic Development (§ 11);

9. makes the DECD commissioner chairperson of the Connecticut Development Authority's (CDA) board of directors and changes a CDA reporting requirement (§ 12);

10. makes many technical and programmatic changes to DECD's statutes and programs (§§ 13-26);

11. makes changes to the Neighborhood Assistance Act (NAA), including extending NAA tax credit eligibility to companies subject to the state's business entity tax and doubling the total amount of credits that a company may claim annually under the NAA (§§ 27-28);

12. extends enterprise zones benefits to specified sections of Plainville (§ 29);

13. allows the DECD commissioner to create the Learn Here, Live Here program to provide incentives for graduates to buy a first home in Connecticut (§§ 30-32);

14. eliminates the 21-member Connecticut Competitiveness Council, which PA 10-75 established to promote the state's industry clusters.

*<u>House Amendment "A"</u> makes many unrelated changes. It adds the provisions:

1. concerning the auto fleet conversion study,

2. making the DECD commissioner chair of the CDA and CHFA boards,

3. establishing the task force on developing innovative business leaders,

4. expanding OBRD's powers,
5. revamping the Innovation Network for Economic Development,
6. making technical and programmatic changes to DECD's programs and statutes,
7. expanding the NAA,
8. extending enterprise zone benefits to sections of Plainville, and
9. establishing the Learn Here, Live Here Program.

The amendment makes changes to those provisions of the underlying bill concerning the Insurance Reinvestment Act and the Manufacturing Reinvestment Account Program.

It also eliminated provisions in the underlying bill:

1. making changes to Connecticut Innovations, Inc.'s Pre-seed Financing and Angel Investor programs,
2. converting a portion of the state's motor vehicle fleet to alternative energy sources by January 1, 2015,
3. restoring several energy-related sales tax exemptions,
4. allowing hybrid and electric vehicles in high occupancy vehicle lanes,
5. establishing a solar energy financing program,
6. creating a temporary funding stream to capitalize tourism marketing grants, and
7. extending historic preservation tax credits to more types of historic property.

EFFECTIVE DATE: Various, see below

§ 1 — STUDENT LOAN REIMBURSEMENTS

PA 10-75 authorized reimbursements for student loans and training grants for Connecticut residents with educational backgrounds and jobs related to green technology, life science, or health information technology.

The bill expands eligibility to include residents receiving degrees in biomedical engineering and the manufacture of medical devices, by adding the study of such topics to the program's definition of life science. The law already includes in that definition the study of genes, cells, tissues, and the chemical and physical structures of living organisms.

But the bill eliminates reimbursement eligibility for those receiving a training certificate in one of the fields specified above. Under the bill, the program remains open to students receiving a bachelor's or associate's degree.

By law, to be eligible for the program, a resident must graduate from a Connecticut institution of higher education on or after May 1, 2010 with a degree related to one of the fields mentioned above. Current law also conditions eligibility on the resident working for at least two years in the state after graduation in a job related to one of these fields. The bill requires that the student be employed by a business in one of these fields, rather than specifically in a job related to these fields.

The bill also changes the financial eligibility criteria. It provides that a resident qualifies for reimbursement if his or her federal adjusted gross income is no more than $ 150,000 for the year before the initial reimbursement year. Under current law, to qualify for reimbursement, the individual's expected family contribution, as determined by the federal Free Application for Federal Student Aid, must be no more than $ 35,000 for the most recent full academic year. (Income is one of the factors that affect family contribution.)

By law, the reimbursements apply to federal and state student loans. (No state loans are currently available.) A resident with a bachelor's degree qualifies for reimbursements of up to $ 2,500 per year or 5% of the loan amounts, whichever is less, for up to four years. A resident with an associate's degree qualifies for the same amount, but only for up to two years. The law caps the total value of reimbursements a resident can receive under this and any other state program at $ 10,000 for those holding a bachelor's degree and $ 5,000 for those holding an associate's degree.

EFFECTIVE DATE: Upon passage

§ 2 — INSURANCE REINVESTMENT FUND PROGRAM

This program authorizes insurance premium, corporation business, and personal income tax credits for taxpayers investing in insurance businesses through a state-certified insurance reinvestment fund. Under current law, taxpayers can apply credits against their tax liability or sell them (i.e., assign them) to another taxpayer. The bill specifies that taxpayers may transfer the credit to an affiliated business or entity.

EFFECTIVE DATE: Upon passage

§ 3 — AUTO FLEET CONVERSION STUDY

The bill requires the transportation and administrative services commissioners to jointly study the costs of converting up to 25% of the state's auto fleet to alternative energy sources. They must do this by July 1, 2011 within available appropriations and submit their findings and recommendations to the governor and the Commerce, Transportation, Environment, and Energy and Technology committees by February 1, 2012. .

The study must:

1. include the Department of Transportation's vehicles;
2. identify the costs and environmental benefits of converting the fleet to electric power, alternative fuels, or natural gas; and
3. establish time frames for completing the conversion.

EFFECTIVE DATE: Upon passage

§§ 4-7 — MANUFACTURING REINVESTMENT ACCOUNT

Eligible Businesses

The bill requires the DECD commissioner to establish a program under which small manufacturers with 50 or fewer employees can defer corporation business taxes on the money they save for training, developing, and expanding their workforce or purchasing machinery, equipment, or facilities.

Eligible Manufacturers

The commissioner must establish criteria and guidelines for selecting up to 50 manufacturers, which include any business that changes the form, composition, quality, or character of tangible personal property for retail sale or making a product for such sale.

Manufacturing Reinvestment Account

A manufacturer may establish a manufacturing reinvestment account only in a Connecticut bank, which can act as the account's trustee or custodian. Neither the bank nor the manufacturer can invest the money in the account in life insurance contracts or comingle it with other property. The bank must close the account five years after the manufacturer established it and return the balance to the manufacturer.

The manufacturer may deposit up to $ 50,000 annually, or 100% of their domestic gross receipts, whichever is less, on a corporation tax-deferred basis for up to five years, if they use the funds for these purposes.

The manufacturer may deduct the deposits from its corporation business taxes until it withdraws the money. It must pay taxes on each withdrawal, but at a reduced rate of 3.5%, regardless of its corporate or business structure. Any balance remaining after five years is taxed at the full rate (currently 7. 5%, plus 10% surcharge). Under the bill, the bank must return the balance to the manufacturer, which then has up to 60 days to pay the taxes on this amount.

Eligible Expenditures

A manufacturer may withdraw funds from the account to train its workers or purchase machinery, equipment, or manufacturing facilities. Machinery includes the basic machine and its component parts plus equipment and devices used or needed to control, regulate, or operate it. Equipment includes separate devices needed to manufacture, process, or fabricate things.

Annual Report

The bill requires the banking commissioner to annually report on banks acting as trustees or custodians for manufacturers establishing reinvestment accounts. He must include this information in the annual report he submits to the Banks Committee under current law. That report currently summarizes the actions he took to:

1. let Connecticut-chartered banks engage in certain activities closely related to banking and those permitted for federally chartered banks and

2. approve uninsured banks that do not take retail deposits.

The bill eliminates the requirement that the report include information on the commissioner's action with respect to Connecticut-chartered banks engaging in closely related activities.

EFFECTIVE DATE: July 1, 2011 and applicable to income years on or after January 1, 2011.

§ 8 — DECD COMMISSIONER AS CHAIRPERSON OF CHFA'S BOARD

The bill makes the DECD commissioner the chairperson of CHFA's board of directors. Under current law, the chairperson is appointed by the governor, with the general assembly's advice and consent.

By law, the commissioner is already a member of CHFA's board.

EFFECTIVE DATE: Upon passage

§ 9 — TASK FORCE ON BUSINESS AND INDUSTRY BARRIERS

Purpose

The bill establishes a 19-member task force to identify the barriers facing Connecticut's businesses and industries. The bill implicitly defines those barriers as those confronting innovative business leaders. It requires the task force to examine:

1. establishing links between Connecticut and international businesses and colleges and universities;

2. cultivating the state's next generation of business innovation leaders;

3. establishing international competitions that provide incentives for attracting such leaders to Connecticut and encouraging those who are here to remain and contribute to innovation and technological growth;

4. developing a global business plan for staging international competitions offering prizes, stipends, and first-year investment capital to businesses and industry workers relocating to Connecticut and establishing their businesses here;

5. energy-related job growth, economic and workforce development, research and development, and information sharing between manufacturers and colleges and universities;

6. the number of manufacturers that used remedial measures for addressing Department of Environmental Protection (DEP)-imposed noncriminal penalties and whether such penalties could be waived based on the remediation;

7. other states' programs for waiving environmental penalties imposed on businesses;

8. offering fellowships to top entrepreneurs who spend one year in Connecticut developing their business; and

9. using social media and other technology to encourage socially useful community-based projects to compete for stipends and corporate support and funding.

Appointments

The governor and legislative leaders appoint 11 members. The governor appoints three members, the House speaker and Senate president pro tempore each appoint two, and House and Senate majority and minority leaders each appoint one. The appointing authorities may appoint legislators. They must make their appointments within 30 days of the bill's effective date and fill any subsequent vacancies. The bill names the chairpersons and ranking members of the Commerce and Higher Education committees to the task force, bringing the total membership to 19.

Operations

The task force has two chairpersons, one each selected by the House speaker and the Senate president pro tempore. The chairpersons must call the first meeting within 60 days after the bill's effective date. The administrative staff of the Commerce and Higher Education and Employment Advancement committees must provide the administrative support.

Report

The task force must report its findings and recommendations to the governor and the Commerce and Higher Education and Employment Advancement committees by February 1, 2012. It terminates on this date or when it submits the report, whichever is later.

EFFECTIVE DATE: Upon passage

§ 10 — OFFICE OF BROWNFIELD REMEDIATION AND DEVELOPMENT (OBRD)

The bill expands OBRD's powers by allowing it to enter into cooperative agreements with qualified implementing agencies, which the bill does not define. It also allows OBRD to award:

1. grants, where appropriate, to these agencies for designing, implementing, and supervising brownfield assessment and remediation and

2. sub grants to the agencies as long as they comply with the

original grant's terms and conditions.

EFFECTIVE DATE: Upon passage

§ 11 — INNOVATION NETWORK

Revamp Mission

The bill revamps the Innovation Network for Economic Development's structure and mission. Under current law, the economic development agencies and the University of Connecticut must develop the network's plan and budget in consultation with the Governor's Competitiveness Council, the education and higher education commissioners, the community-technical colleges' chancellor, the Office of Workforce Competitiveness' director, and leading technology-focused organizations. The bill makes the economic development commissioner solely responsible for the network and changes its focus.

Currently the agencies responsible for developing the network must:

1. create endowed chairs and hire leading academic professionals in targeted fields,
2. aggressively solicit federal research funds,
3. increase corporate-sponsored research,
4. establish at least one innovation center linked to the universities,
5. strengthen existing university-based technology transfer and entrepreneurship programs,
6. encourage collaboration between universities and industry- or federally sponsored technology centers, and
7. create links to Connecticut-based incubators and groups that generally invest in support start-up companies in their early stages.

The recommendation regarding the innovation center must involve advanced technology corporations and start-up enterprises and the Hartford-based Connecticut Center for Advanced Technology (CCAT).

The bill eliminates the requirement that the network include endowed chairs and instead allows it to:

1. convene leaders of technology-focused economic development organizations,
2. create a networking system for entrepreneurs and others,
3. develop benchmarks based on the best programs that promote innovation in economic development,
4. develop a statewide innovation database,
5. assess current programs and recommend changes benefiting the state's innovation competitiveness,
6. investigate issued patents, and
7. pursue other initiatives the commissioner deems appropriate to maintain the state's innovative competitiveness.

The bill allows the network to review and comment on the other areas that comprise its current charge, but drops the provision regarding leveraging CCAT's efforts.

Tapping Existing Resources

In running the innovation network, the bill allows the commissioner to tap other organizations' resources, including the Labor Department, the Connecticut State University System, other higher education institutions, and federally funded research centers.

The bill specifies that the commissioner must use up to $500,000 appropriated by PA 11-16 for the Innovation Challenge Grant Program.

EFFECTIVE DATE: July 1, 2011

§ 12 — RECIPIENTS OF CONNECTICUT DEVELOPMENT AUTHORITY FINANCIAL ASSISTANCE

By law, the Connecticut Development Authority (CDA) must file an annual report on its financial assistance programs that has certain information about the companies receiving financial assistance, including each company's gross revenue for its most recent fiscal year. This bill requires CDA to report gross revenue only for companies that make the information public in the normal course of business. It requires CDA to report the gross revenues of other companies separately while concealing their names and identities. This must be consistent with the law that already exempts certain information that applicants submit to CDA from the Freedom of Information Act.

The bill allows the governor and chairpersons and ranking members of the Appropriations, Commerce, and Finance, Revenue and Bonding committees, after a request to CDA, to examine the detailed report data in confidence, including the specific revenue data for each company not listed by name in the report. It allows the committee chairpersons and ranking members to disclose the data to other committee members and requires that they also keep the data confidential.

EFFECTIVE DATE: July 1, 2011

§ 12 — CONNECTICUT DEVELOPMENT AUTHORITY BOARD CHAIRPERSON

The bill names the DECD commissioner chairperson of CDA's board of directors. Under current law, the commissioner is an ex officio board member, and the governor appoints the board chairperson.

EFFECTIVE DATE: July 1, 2011

§§ 13-26 — DECD STATUTORY REVISIONS

§§ 13-17 & 19, & 26 — North American Industrial Classification

The bill replaces references to an obsolete business classification code DECD uses to determine if a business qualifies for tax and financial incentives under different programs. Current law cites the Standard Industrial Classification System (SIC), which was based on the goods a business makes, the service it provides, or the methods and techniques it employs.

The federal government replaced SIC with a different classification scheme needed to implement trade agreements creating a common North American market. That scheme—the North American Industrial Classification (NAIC) System—groups businesses that use the same or similar processes to make goods or deliver services. Consequently, NAIC reflects the greater role services play in the economy.

The bill substitutes NAIC for SIC with respect to:

1. enterprise zone and targeted investment property tax exemptions and job creation grants (§§ 13, 15, 16, & 17),
2. financial services property tax exemptions (§ 16),
3. local option tax abatement for communication companies (§ 14), and
4. urban and industrial sites remediation tax credits (§ 19).

§§ 15-18 — Extension of Economic Development Incentives

The bill extends several economic development incentives to more types of businesses. Current law targets certain property tax exemptions, corporation business tax credits, and job creation grants to enterprise zones and targeted investment communities and further limits these geographically targeted incentives to manufacturers and specified service and retail businesses operating in these designated areas.

The bill extends the incentives to the same range of businesses that qualify for financing under DECD's Manufacturing Assistance Act (MAA) program. These include two overlapping groups of businesses:

1. those that create or retain jobs, export most of their products and services out of the state, encourage innovation, or add value to products and services (i. e. , economic-base businesses) and

2. those within a DECD-designated industry cluster.

It also extends the incentives to establishments, auxiliaries, or operating units of both groups, as defined in the NAIC system.

The bill eliminates waste collection businesses from eligibility for the incentives.

§ 18 — Service Businesses' Eligibility for Enterprise Zone and Targeted Investment Community Incentives

Current law requires the DECD commissioner to adopt regulations for certifying whether a business qualifies for enterprise zone or targeted investment community incentives. Under current law, service businesses qualify if they are classified as such in the SIC manual.

Under the bill, the regulations must extend the incentives to any service business, not just those classified as such in the manual, if the business supports the economic competitiveness of manufacturers or other economic-base businesses or furthers the state's interests. Such businesses include those providing day care, job training, education, transportation, employee housing, energy conservation, pollution control, and recycling.

§ 17 — Bradley Airport Development Zone Benefits

The bill removes the “distressed municipalities” designation from those sections of Granby, Suffield, Windsor, and Windsor Locks and that are in the Bradley Airport Development Zone. PA 10-98 designated these sections the Bradley Airport Development Zone (BADZ) while simultaneously designating them as distressed. The BADZ designation qualifies businesses for property tax exemptions and corporation business tax credits while the distressed municipality designation affects the towns' eligibility for funds under various programs.

The distressed municipality designation qualifies municipalities for open space, planning, and development grants. But it disqualifies them for grants under the Small Town Economic Assistance Program.

Removing the distressed municipality designation restores the towns' eligibility for funds under that program.

DECD annually designates distressed municipalities based on demographic and economic criteria. It scores and ranks each municipality and designates the top 25 as distressed, a group that currently does not include the BADZ towns.

§§ 20 & 21 — Energy Conservation Loan Repayments

The bill requires all principal payments for all loans made from the Energy Conservation Loan Fund to go directly back into the fund and makes a conforming technical change. Currently, the payments are first deposited in the Housing Repayment and Revolving Loan Fund.

§ 24 — Entrepreneurial Training for Specified Groups

The bill qualifies dislocated workers and displaced homemakers for DECD-funded entrepreneurial training. Current law allows the commissioner to fund such training programs for former recipients of temporary family assistance, general assistance, and aid to families with dependent children. The training programs can also assist ex-offenders and high school dropouts.

§ 25 — Small Business and Nonprofit Loans

The bill allows more businesses and nonprofit organizations to qualify for DECD's Connecticut Credit Consortium program loans. PA 10-75 established this revolving loan program for those businesses and nonprofit organizations with fewer than 50 employees. The bill raises this maximum employee threshold to 100 employees.

EFFECTIVE DATE: July 1, 2011, except for the changes to the (1) property tax exemptions, which take effect October 1, 2011 and applicable to assessment years beginning on or after that date; (2) the criteria for accessing the exemptions, which take effect October 1, 2011; and Connecticut Credit Consortium, which takes effect upon passage.

§§ 27-28 — NEIGHBORHOOD ASSISTANCE ACT

The bill makes changes to the Neighborhood Assistance Act (NAA), which provides business tax credits to companies that invest in certain municipally approved community activities and programs.

The bill extends NAA tax credit eligibility to companies subject to the state's $250 business entity tax. These companies include S corporations, limited liability companies, limited liability partnerships, and limited partnerships.

The bill increases, from $ 75,000 to $ 150,000, the total amount of credits that a company may claim per year under the NAA. By law, a company generally receives a credit of 60% of its investment up to the annual maximum.

The bill also eliminates the requirement that to be eligible for NAA tax credits, a company's total charitable contributions for the year for which it is seeking the credit, including contributions made to programs eligible under the NAA, must at least equal its total contributions in the previous year.

EFFECTIVE DATE: October 1, 2011

§ 29 — ENTERPRISE ZONE

The bill extends the benefits of an enterprise zone to certain businesses and commercial properties in sections of Plainville within specified census tracts and blocks. Specifically, it extends the benefits to (1) 53 acres of property zoned Technology Park and (2) 75 acres of raw land zoned Restricted Industrial (40 acres within one specified census tract and block, and 35 acres in another specified tract and block). The bill does not specify which decennial census was used for determining the census tracts and blocks.

By law, enterprise zone benefits include property tax exemptions, business tax credits, and sales tax exemptions.

By law, an "eligible business" is one that has had fewer than 300 employees at all times during the previous 12 months and is engaged in bioscience, biotechnology, pharmaceutical, or photonics research, development, or production in the state. An "eligible commercial property" is one that an eligible business has owned or leased and used at all times during the preceding 12 months, or real property that the DECD commissioner or Connecticut Innovations, Incorporated has certified as newly constructed or substantially renovated and expanded primarily for occupancy by one or more eligible businesses.

EFFECTIVE DATE: July 1, 2011

§§ 30-32 — LEARN HERE, LIVE HERE PROGRAM

The bill allows the DECD commissioner, in consultation with the commissioners of the departments of Revenue Services (DRS) and Higher Education (DHE), to create an incentive program for certain graduates to stay in Connecticut after graduation and buy a first home here. The program is called the Learn Here, Live Here program.

Program Eligibility and Mechanics

The program is open to graduates of (1) public colleges or universities in Connecticut who qualified as in-state students and paid the in-state tuition rate and (2) regional vocational-technical schools. In either case, they must have graduated on or after January 1, 2014.

Under the program, the DRS commissioner segregates eligible graduates' income tax payments, upon their request, into a Connecticut first-time homebuyers account that the bill establishes (see below), for up to ten years after graduation. The bill specifies that this can occur in taxable years on or after January 1, 2014. The annual maximum of segregated tax payments for a graduate is $2,500, and the annual total for all program participants is $1 million.

Participants can withdraw the segregated amounts to buy a first home in the state within 10 years after they graduated, with the DECD commissioner issuing payments to participants accordingly.

Within 10 years after graduating, a participant may also apply to the DECD commissioner for a payment on the participant's behalf for a down payment on a house. The bill specifies that the house must be the first one the participant buys, either alone or with someone else.

The payment may equal the participant's segregated funds in the account. If the payment is less than that amount, the excess is deposited in the General Fund.

Repayment Schedule

The bill requires participants who move out of Connecticut within five years of graduating to repay a percentage of the amount they receive under the program for a home purchase or house down payment. If a participant no longer lives in Connecticut within the first year after graduating, he or she must repay 100% of the received amount. The required repayment percentage decreases by 20% each year after that, until reaching zero after five years (someone who moves out in year two must repay 80%, in year three 60%, etc). Repayments must be deposited in the General Fund.

Education Program

The bill allows the DECD commissioner, by December 1, 2012, to develop a comprehensive public education program to inform recent graduates who would be eligible about the program. The bill specifies that this education program may only be developed within available appropriations. If conducted, the education program must include information on lifetime savings plans and home buying. If the commissioner develops this program, DECD must begin to implement it by January 1, 2014.

First-time Homebuyers Account

The bill creates a Connecticut first-time homebuyers account as a separate, nonlapsing General Fund account. The account is for funds the DRS commissioner segregates as specified above. The DECD commissioner can use an amount equal to the deposited amount for paying program participants as specified.

The bill requires the state treasurer to invest the account proceeds. Investment earnings (minus costs for account administration) must be credited to the General Fund. On or before September 1, 2014 and annually after that, the treasurer must notify the DECD commissioner of the account balance. The bill provides that any segregated funds that are not used to buy a first home must be transferred to the General Fund.

EFFECTIVE DATE: July 1, 2011

BACKGROUND

Related Bill

HB 6651, which the House and Senate passed, repeals the Innovation Network for Economic Development, which the bill amends, and the Connecticut Competitiveness Council.

SB 843 (File 561), which the Senate passed on June 2, 2011, makes identical changes to CDA's reporting requirement.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute
Yea 19 Nay 0 (03/22/2011)

Appropriations Committee

Joint Favorable
Yea 46 Nay 7 (05/23/2011)